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Office of Research and Drafting

Legislative Budget Office

S.B. 265
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for S.B. 265's Bill Analysis

Version: As Introduced

Primary Sponsor: Sen. Schaffer

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2023	FY 2024	Future Years
State General Revenue Fund			
Revenues	Loss between $11.2 million and $15.2 million	Loss between $22.4 million and $30.4 million	Loss between $22.4 million and $30.4 million per year
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss between $0.4 million and $0.5 million	Loss between $0.8 million and $1.1 million	Loss between $0.8 million and $1.1 million per year
Counties and transit authorities			
Revenues	Loss between $5.7 million and $7.7 million	Loss between $5.7 million and $7.7 million	Loss between $5.7 million and $7.7 million per year

Note: The state or school district fiscal year runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- Authorizing a sales and use tax exemption for sales of certain firearms and ammunition would reduce state sales tax revenue and revenue from permissive county and transit authority sales taxes. Those local taxes share the state's sales tax base. LBO assumes the bill would be effective January 1, 2023. Thus, the table indicates the potential revenue loss estimates for counties and transit authorities in calendar year 2023.

- GRF tax revenue is distributed to the Local Government Fund (LGF) and the Public Library Fund (PLF), 1.66% to each fund under codified law, while the GRF retains 96.68%. A provision in H.B. 110 (the main operating budget act) increases the PLF share to 1.70% during the current biennium. Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.

Detailed Analysis

The bill exempts from the sales and use tax sales of certain personal firearms and ammunition purchased on or after the first day of the first month that begins after the bill's 90-day effective date. As described in the bill, any portable non-shotgun firearm that is 50 caliber or smaller qualifies for the exemption, as does any shotgun that is ten gauge or smaller. Ammunition is exempt if it is designed for use in any of the qualified firearms.

The sales tax exemption would, on an annual basis, reduce state sales and use tax revenue by between $23.2 million and $31.5 million. GRF tax revenue is distributed to the Local Government Fund (LGF) and the Public Library Fund (PLF), 1.66% to each fund under codified law, while the GRF retains 96.68%. A provision in H.B. 110 (the main operating budget act) increases the PLF share to 1.70% during the current biennium. Thus, the combined loss from the bill to these two local funds would total between $0.8 million and $1.1 million annually and the GRF loss would be between $22.4 million and $30.4 million per year. This fiscal note assumes the bill's effective date to be January 1, 2023. Thus, the potential GRF loss would be between $11.2 million and $15.2 million in FY 2023, and the combined loss to the LGF and PLF would be between $0.4 million and $0.5 million.

Permissive county and transit authorities' sales taxes share the state sales tax base. Accordingly, the sales tax exemption would also reduce revenue from those local sales taxes. At about 24.5% of statewide sales tax revenue, the bill potentially reduces permissive county and transit authorities' sales taxes by between $5.7 million and $7.7 million per year, including calendar year 2023.

Estimation

The estimates are primarily based on estimated nationwide retail sales at gun stores of $15 billion in 2021.[1] Those sales were reduced by 20% to account for sales of items other than firearms and ammunition (that would remain taxable under the bill), yielding adjusted sales of firearms and ammunitions of about $12.0 billion. Guns and ammunition subject to the sales tax exemption are also sold at retail establishments other than gun stores. Using product lines statistics of the retail industry from the Economic Census from the U.S. Census Bureau, receipts from sales of firearms and ammunition at all retail stores that carry those products might total about $14.4 billion. LBO has not found data on Ohio's gun and ammunition markets. Thus, the fiscal loss range was obtained by multiplying national retail sales by the estimated percent of national sales made in Ohio from two different data sources. State-level gun sales estimates for the lower bound are derived from the percentage of federally registered weapons located in Ohio by the U.S. Bureau

[1] IBIS World industry statistics.

of Alcohol, Tobacco, Firearms, and Explosives, while state-level gun sales estimates for the upper bound were compiled from commercial security data provider Security.org.

Multiplying nationwide store sales by 2.8% and 3.8%, respectively, for the lower estimate and the higher estimate results in estimated tax-exempt sales in Ohio of roughly between $403 million and $547 million. Applying the state sales tax rate of 5.75% to those amounts yields a potential annual revenue loss from the bill between $23.2 million and $31.5 million.[2]

Due to lack of data, no adjustment was made for limitations in the bill regarding firearm caliber and shotgun gauge. Thus, to the extent sales of nonqualified firearms and shotguns are substantial, actual losses from the bill might be closer to the lower bound than the upper bound of the estimates. On the other hand, the recent spike in inflation may push up the potential revenue loss towards the upper bound of the estimates. Finally, for any particular year, the actual revenue loss from the bill may vary, as weapon and ammunition sales fall and rise with demand and other factors.

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[2] The bill mirrors a statute enacted by West Virginia for which that state's Department of Revenue estimated a fiscal loss of $14 million per year. Using the Department's methodology and assuming markets for firearms and ammunition are somewhat similar in both states, S.B. 265 might reduce Ohio state sales tax revenue by up to $39 million. However, available data suggest that gun ownership may be higher in West Virginia than in Ohio.